

Purchasers of manufacturing machinery and equipment that qualifies for the manufacturing machinery and equipment exemption earn a credit in an amount equal to a fixed percentage of the tax which would have been incurred under the Use Tax or Service Use Tax. 35 ILCS 105/3-85; 35 ILCS 110/3-70. (This is a GIL.)

December 15, 1998

Dear Ms. Xxxxx:

This letter is in response to your letter dated October 16, 1998. The nature of your letter and the information you have provided require that we respond with a General Information Letter which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

Per a conversation on October 15, 1988, with PERSON, of The Illinois Department of Revenue, I was instructed to request a legal ruling on a question we, COMPANY, had regarding a Manufacturing Purchase Credit issue.

COMPANY and BUSINESS are currently in a dispute regarding whether or not our purchase of PRODUCT crates qualifies as tangible, personal property used in a production-related process, which would qualify them for the credit we want to take. The crates BUSINESS provides are used in the manufacturing process of our products. We also use the crates in the storage, inventory, and shipping process of our products.

We have earned a Manufacturers Purchase Credit of approximately \$47,000 during 1998 and would like to use it towards the \$28,177 tax due on the total amount of crates we have purchased from BUSINESS. BUSINESS is questioning whether the purchase adheres to the specifications of the Manufacturing Purchase Credit uses.

Please provide, in writing, if possible, a statement indicating that the crates, which are indeed tangible personal property used for post-production material handling, storage, and shipping, do qualify for the credit use under IL. Admin. Code, Title 86 § 130.331(b)(4).

Due to the limited amount of information contained within your letter, we are unable to give the ruling you requested. The following information regarding Manufacturer's Purchase Credit is general in nature.

The State of Illinois provides a manufacturer's purchase credit in addition to the exemption for manufacturing machinery and equipment. See 86 Ill. Adm. Code 130.331, enclosed. Purchasers of manufacturing machinery and equipment that

qualifies for the manufacturing machinery and equipment exemption earn a credit in an amount equal to a fixed percentage of the tax which would have been incurred under the Use Tax or Service Use Tax. 35 ILCS 105/3-85; 35 ILCS 110/3-70.

The credit may be used to satisfy Use Tax or Service Use Tax liability that is incurred on the purchase of production related tangible personal property that does not qualify for the manufacturing machinery and equipment exemption. Effective June 30, 1995, the reporting requirements were changed to an annual reporting method instead of the monthly method required for manufacturer's purchase credit earned and used prior to that date.

"Production related tangible personal property" means (i) all tangible personal property used or consumed by the purchaser in a manufacturing facility in which a manufacturing process takes place, including tangible personal property purchased for incorporation into real estate within a manufacturing facility and including, but not limited to, tangible personal property used or consumed in activities such as pre-production material handling, receiving, quality control, inventory control, storage, staging, and packaging for shipping and transportation purposes; and (ii) all tangible personal property used or consumed by the purchaser for research and development.

"Production related tangible personal property" does not include (i) tangible personal property used, within or without a manufacturing facility, in sales, purchasing, accounting, fiscal management, marketing, personnel recruitment or selection, or landscaping or (ii) tangible personal property required to be titled or registered with a department, agency, or unit of federal, state, or local government.

Supplies and consumables, such as die lube, coolants, and hydraulic fluid used in or on aluminum and zinc die casting machines along with flux used to purify molten aluminum, can qualify as production related tangible personal property. As stated above, manufacturers who have earned manufacturer's purchase credit on the purchase of qualifying manufacturing machinery and equipment can use that manufacturer's purchase credit to satisfy their Use Tax or Service Use Tax liability on the purchase of production related tangible personal property. Please note that the amount of manufacturer's purchase credit that can be applied to a purchase of production related tangible personal property is limited to the state rate of tax incurred on that property (6.25%). Any local taxes incurred on the purchase of production related tangible personal property remain the responsibility of the purchaser.

Taxpayers whose purchases qualify for the manufacturer's purchase credit must maintain records that identify, as to each purchase of production related tangible personal property on which the purchaser used manufacturer's purchase credit, the vendor (including, if applicable, either the vendor's registration number or Federal Employer Identification Number), the purchase price, and the amount of manufacturer's purchase credit used on each purchase.

I hope this information is helpful. The Department of Revenue maintains a Web site which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Melanie A. Jarvis  
Associate Counsel

MAJ:msk

Enc.